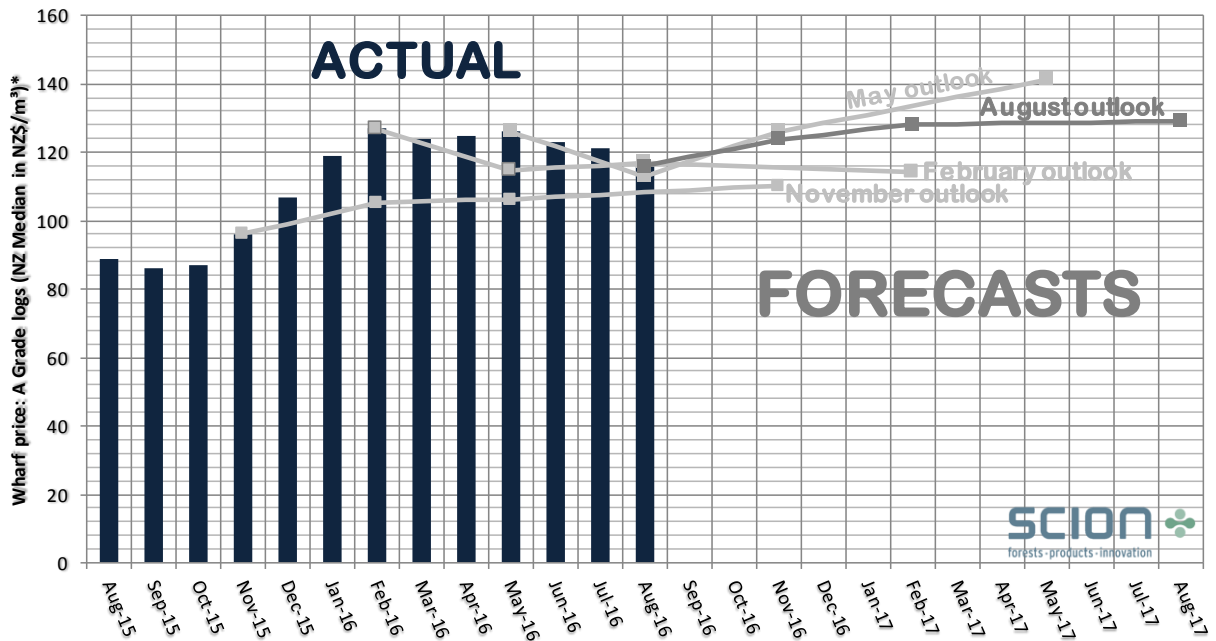


Log Price Outlook – August 2016



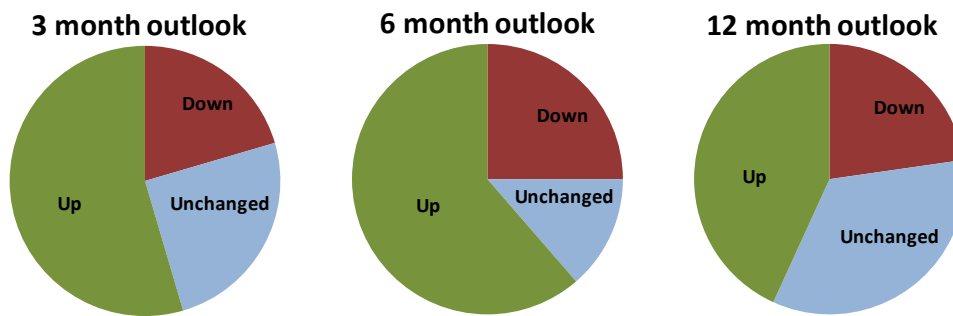
Summary: This log price outlook was generated by combining the opinions of 44 persons during the second half of August 2016 in New Zealand and abroad. The participants are generally log buyers and sellers, but other interested parties, such as consultants and shipping companies also frequently participate in the log price outlook. A significant majority of people (see Fig. 2) anticipate unpruned and pruned log prices to rise over the next six months (see Fig. 1 & 3), with seasonality being the most significant driver. Expectations since the May 2016 outlook have come down significantly. India is starting to play a prominent role and changes in the exchange rate are also considered important future price drivers. Lead indicators based on forklift sales, marketing and maintenance (see Fig. 4) indicate some growth in New Zealand, India and possibly the Chinese markets. South Korea, Japan and especially Australia have recorded reductions in forklift activities, which are likely to suppress in future wood demands. The report also briefly reflects on the importance of different drivers associated with phytosanitary regulations (See Fig. 5).

Figure 1: Wharf price outlook for unpruned logs



* Data source (dark blue:) AgriHQ

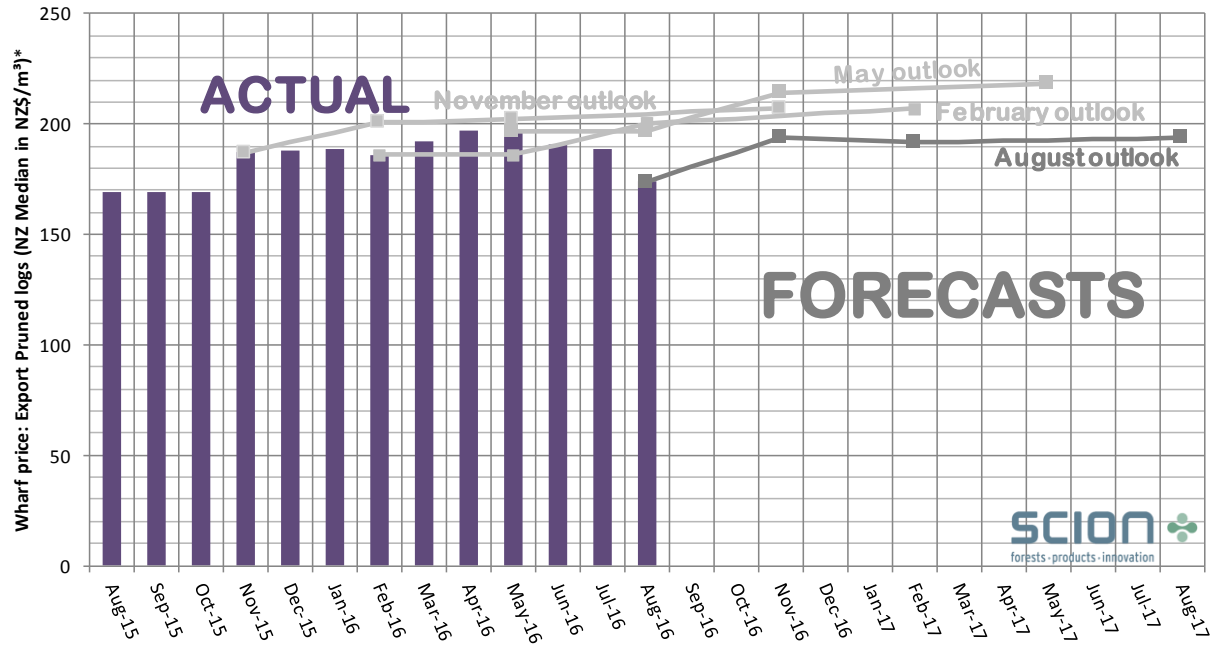
Figure 2: The proportion of participants with a certain opinion about future unpruned log prices



Summary of comments made by participants concerning unpruned log prices:

- Wood fibre and saw log shortages in China, Papua New Guinea and South East Asia
- Housing starts in USA
- Low world interest rates making holding forests for the natural growth rate attractive
- Oversupply of apartments in China
- Normal seasonal variation
- High inventory in 3 months outlook
- Chinese New Year in 6mths outlook
- Changes to policy in China relating to the harvest of China's own timber
- Softening demand in China - but this will be offset by increasing shipments to India
- Turbulence in Russian supply
- Firmer ocean freight market
- Rising NZ Dollar
- Improving weather, which will increase production
- Stable construction market in China but with limited growth
- Log export competition from Russia, also lumber
- North America - too much supply available to support higher prices until next year
- New Zealand's single-focus on huge volumes of log exports to 3-4 markets will continue to create price volatility
- Wood quality going into China; trees below 25 years being harvested - these are negatives
- Positive India demand
- As China comes back into play in a month's time, after the traditional low season, prices will lift slightly, but the strong NZ dollar will limit any gains
- With strong domestic unpruned demand continuing this should keep export volumes in check with log supplies allocated to best paying market in over next 3-6 months
- NZ\$ likely to drop due to interest rate pressure

Figure 3: Wharf price outlook for pruned logs



* Data source (Purple:) AgriHQ

Summary of comments made by participants concerning pruned log prices:

- Prices have decreased too much and higher overall prices can be justified
- Prices are currently very high - Expect substitution for finger jointed material
- More segregation of quality
- Increased demand for stain treated logs
- Reducing supply in the CNI and China's willingness to pay a premium for debarked treated pruned logs
- Some increase in the ability of NZ mills to compete for logs and ship lumber to the improving US market. (Unless Trump becomes President)
- Declining Chinese export furniture activity
- Rising and then falling NZ Dollar
- Tight supply and increasing demand in China for furniture grade logs
- Harvesting trees too young
- Still too much pruned log volume in China
- USD/NZD exchange rate - growing residential construction in US market should underpin prices for NZ-based producers exporting finished product to mouldings market
- Poor quality pruned logs being sold into China has damaged the reputation of NZ pruned radiata
- Some market dissatisfaction with pruned log quality.
- Ongoing improvement in US market
- Softwood price argument between Canada / US going to cause upward price pressure
- Beginning to see cyclic seasonal export demand for pruned. Prices should reflect that.

Industrial Lead Indicators based on Forklift Industries

An increase in the number of forklifts in an industry corresponds with increasing numbers in wooden pallets and packaging material. The figures below illustrate indexes of internet activities that can be associated with forklift purchases and maintenance in six countries where New Zealand timber and logs are sold.

Figure 4: Forklift sales, marketing and maintenance indicators for different countries

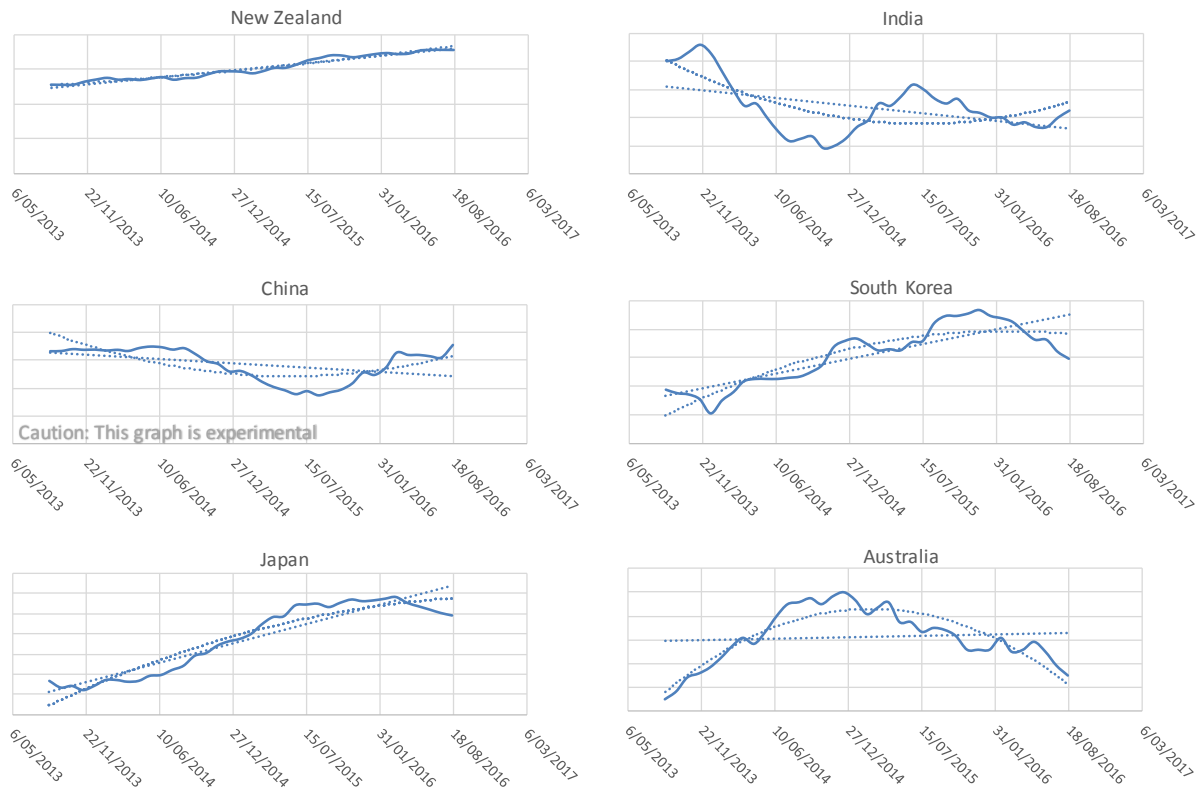
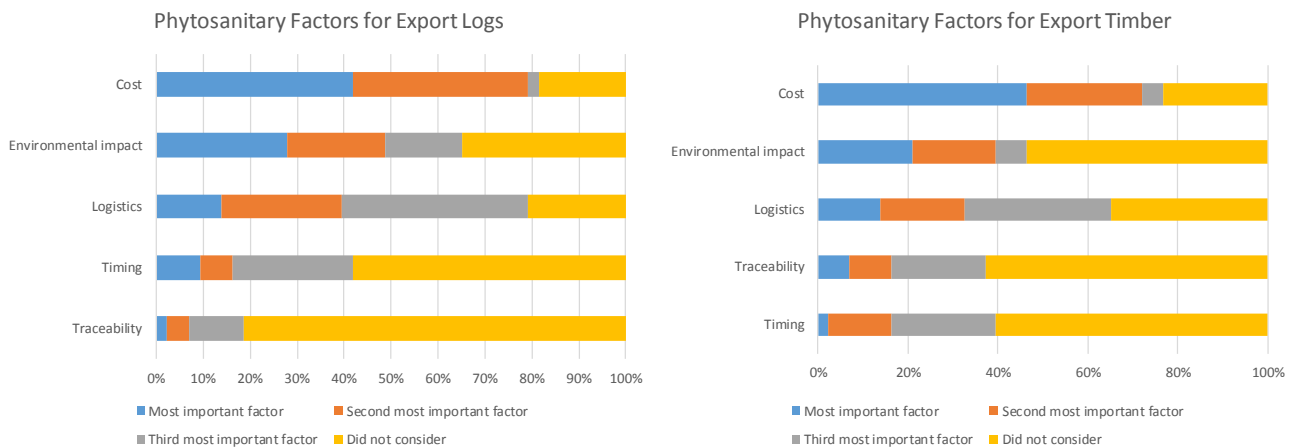


Figure 5: The relative importance of different attributes associated with meeting phytosanitary requirements for logs (left) and timber (right).



Scion would like to acknowledge AgriHQ for allowing us to include some of their data in this report. The next log price outlook will take place from 14 to 25 November 2016. This information has been distributed exclusively to persons who participated of the outlook forecast – Thank you for your contribution.

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